United Nations E/2009/48

Economic and Social Council

Distr.: General
18 March 2009

Original: English

Special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development
New York, 27 April 2009

Coherence, coordination and cooperation in the context of the implementation of the Monterrey Consensus and the Doha Declaration on Financing for Development

Note by the Secretary-General*

Summary

The present note provides background information and suggests points for reflection to inform discussion on the following selected themes: (a) addressing the impact of the global financial and economic crisis on development, including issues related to the international financial and monetary architecture and global governance structures; and (b) strengthening the intergovernmental inclusive process to carry out the financing for development follow-up.

* The present note was prepared in consultation with the staff of the major institutional stakeholders involved in the financing for development process. Responsibility for its content, however, is solely that of the United Nations Secretariat.

09-27261 (E) 070409

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I. Addressing the impact of the global financial and economic crisis on development, including issues related to the international financial and monetary architecture and global governance structures

1. The world financial crisis, which first became apparent with a liquidity crisis in 2007, has now triggered a full-blown, global economic recession. Its systemic nature portends a possible prolonged period of instability and distress. By the end of 2008, most advanced economies were, for the first time since the second world war, simultaneously in recession. The economic slowdown has spread, inter alia through international trade and finance channels, to developing countries and the countries with economies in transition. Total world economic growth is expected to be zero or less in 2009, which implies that per capita income will decline by at least 1 per cent, a loss that would be borne disproportionately by the world's poor. Trade volume would decline by at least 3 per cent in 2009, after growing 4.1 per cent in 2008 and 7.2 per cent in 2007. Collapsing trade volume and credit contraction are now potent downward factors on world economic growth, and this will have a profound impact on developing countries whose recent growth patterns have depended heavily on trade. Large and volatile movements in exchange rates aggravate uncertainty in both trade and finance and the downturn in real output and employment.

2. In December 2008, the General Assembly endorsed the Doha Declaration on Financing for Development (General Assembly resolution 63/239, annex). In the Declaration, Heads of State and Government and High Representatives at the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus had expressed their deep concern over the challenge to the international community posed "by the severe impact on development of multiple, interrelated global crises and challenges, such as increased food insecurity, volatile energy and commodity prices, climate change and a global financial crisis, as well as the lack of results so far in the multilateral trade negotiations and a loss of confidence in the international economic system". If the current economic crisis brings to a halt progress in implementing internationally agreed development goals and eradicating poverty, the prospects for a vibrant and peaceful international community would be at risk. The "urgent resolve to ensure that the ongoing efforts to improve the operation of the multilateral trading system to better respond to the needs and interests of all developing countries, in particular the least developed countries" expressed in the Doha Declaration now needs to be put into action with concrete decisions and policies.

3. As outlined recently by the World Bank, developing countries face a financing shortfall of $270-700 billion in 2009 as private sector creditors shun emerging markets, and only one quarter of the most vulnerable countries have the resources to prevent a rise in poverty. International financial institutions cannot, by themselves, currently cover the shortfall — which includes public and private debt and trade deficits — for these 129 countries, even at the lower end of the range. A solution will require the contributions of Governments, multilateral institutions and the private sector. Only one quarter of vulnerable developing countries have the ability to finance measures to blunt the economic downturn, such as programmes to create jobs and provide safety nets.

4. The financial crisis will have long-term implications for developing countries. In almost all the areas covered by the Monterrey Consensus[1] and the Doha Declaration there are bound to be negative effects as follows:

(a) **Domestic resource mobilization**. There will be less financial resources and less productive investment and employment creation. Countries will have fewer resources to invest in physical and social infrastructure and in social programmes and safety nets. Governments will have less space to institute appropriate fiscal and monetary policies;

(b) **International private capital flows**. There will be a substantial — perhaps dramatic — fall in the flow of private capital, in particular to the countries that need it most. Remittances will also most probably be considerably diminished, owing to recession in the North;

(c) **International trade**. Protectionist pressures are bound to rise, as indeed is already being witnessed in several countries. The Doha round of multilateral trade negotiations may suffer accordingly, making it more urgent that the negotiations restart with a truly developmental agenda on the table;

(d) **Official development assistance**. Available funds may be scaled down. Donors are already behind by around $39 billion on their commitments to increase aid made at the summit of the Group of Eight in Gleneagles, United Kingdom. The concern now is that aid flows will become more volatile as some countries cut their aid budgets while others reaffirm aid commitments at least for this year;

(e) **External debt**. Issuance of debt by high-income countries is set to increase dramatically, crowding out many developing country borrowers, both private and public. Funds available for debt relief may substantially diminish, as with official development assistance (ODA);

(f) **Systemic issues**. Addressing systemic issues and ensuring the coherence and consistency of the international economic, financial and trading system in support of development is perhaps the area where decisive action is needed most, as these issues affect all the other areas noted above. The following sections of the present note are therefore devoted to that topic.

A. Promoting cooperation in tackling the global financial and economic turmoil

5. In the immediate period, a priority task for the international community must be to prevent the financial and economic crisis from becoming a generalized human crisis. This will require timely recovery programmes on the part of developed countries that do not impose short- and longer-term costs on developing countries and countries with economies in transition. Intensified, if not unprecedented, international cooperation is needed to generate the required international resources to avoid a self-reinforcing downward spiral. It will be necessary, for example, to exert strenuous efforts to sustain ODA levels, including aid for trade, in order to avoid developing countries losing their hard-won gains through no fault of their own

[1] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

and to prevent the "boomerang" effect, since these markets, being recently the most dynamic, are indispensable for the recovery of employment in the developed economies.

6. The rapidly spreading crisis has challenged the ability of policymakers to assess the scope of the crisis and to craft timely policy responses. Policymakers worldwide initially underestimated the depth and breadth of the crisis. As a result, policy actions by and large were not commensurate with the scale and nature of the problem and were mostly limited to liquidity injections by central banks. From the spring of 2008, authorities in the United States of America began to ease monetary policy, even as the authorities in Europe maintained a tight stance.

7. In the autumn of 2008, piecemeal approaches were abandoned and policymakers in developed countries began to move to manage the crisis in the financial sector in a more comprehensive fashion. In a still mostly uncoordinated, though often coincident, fashion, developed country Governments have cut interest rates and set up foreign currency swap lines on an ad hoc basis. They have also undertaken deposit guarantees, debt guarantees, capital injections and asset purchases aimed at unfreezing credit and money markets and at recapitalizing failing financial institutions.

8. Bold monetary policy action and bailout packages in major developed countries may have so far prevented a global financial catastrophe, but the continuing lack of credit and the deep loss of confidence in the financial sector underscores that more needs to be done. Moreover, the sharp contraction in real output greatly complicates efforts to restore the health of the financial sector. The scope for further monetary stimulus has become severely limited as interest rates approach zero per cent.

9. To restart real sector activities, both developed and developing countries are designing and beginning to implement substantial fiscal stimulus packages. According to many observers, given the scale and the depth of the crisis, only massive packages totalling as much as 3 per cent of world output can be expected to make a significant difference.

10. As an exercise in State intervention, fiscal stimulus interventions remain politically controversial in some countries. Governments have been hesitant to move quickly on such stimulus packages owing to possible negative implications in the medium run from a further widening of fiscal deficits, which are already growing significantly as a result of the emergency fiscal measures to recapitalize financial institutions and the workings of automatic stabilizers. The choice between expenditure increases and tax cuts has been politically contested, as have been the specific types of expenditure and tax involved. The severity of the crisis, however, calls for policy actions that are commensurate with the scale of the problem and directed at replacing demand deficits emanating from the private sector; the required stimulus could involve going well beyond any normal range of budgetary considerations.

11. The range of national policy interventions, in both the monetary and the fiscal areas, has sometimes had unintended consequences on other economies. For example, deposit guarantees introduced by some States provoked destabilizing capital movements within the European Union in the early months of the crisis. The import content of domestic spending represents a potential leakage of the stimulus

created by national fiscal spending and imposes other spillovers and relative price or exchange rate movements, not to mention political tension towards protectionist policies. With interdependent economies, all countries should take into account the potential impact of their recovery strategies on other countries, to avoid retaliatory action and to ensure that their programmes achieve the intended impact on their own economies. As suggested in the *World Economic Situation and Prospects 2009*,[2] fiscal stimulus should be provided in an internationally coordinated fashion so that the positive multiplier effects of fiscal spending can be amplified through international economic linkages. International coordination is not only about concerted fiscal spending, but also about avoiding emerging forms of indirect protectionism in the design of fiscal packages.

12. The most severely affected developing countries and countries with economies in transition are those whose public finances and/or net external positions were in deficit at the onset of the crisis. Especially for these countries, improved and timely access to financing and additional reliable foreign aid flows is needed to cope with the drop in export earnings and reduced access to private capital flows and to protect the gains made over the past few years in terms of poverty reduction and attainment of the Millennium Development Goals. Progress that had been made by countries under the Highly Indebted Poor Countries initiative will suffer a setback from the collapse in trade and commodity prices, especially considering that many of the countries at the post-completion stage of the initiative are considered to have a moderate to high vulnerability to a relapse to debt distress. Many of the world's poorest countries are becoming more dependent on development assistance as their exports and fiscal revenues decline because of the crisis.

13. In the provision of external finance to respond to these external shocks, which by their nature are not traceable to domestic policies, the Bretton Woods institutions should strengthen efforts, as called for in the Doha Declaration, "within their respective mandates, to help developing countries to deal with the adverse effects of exogenous shocks, such as large fluctuations in the prices of key commodities, for example, through the reformed [International Monetary Fund] Exogenous Shocks Facility". There is also a need to bolster the international community's financing capacity to address the dire consequences of the global financial crisis on the poor and vulnerable segments of the world population through novel initiatives and mechanisms, such as the "vulnerability fund" advocated by the World Bank.

14. The international community expressed its concern in the Doha Declaration over the impact of the current financial crisis and global economic slowdown on the ability of developing countries to access the financing necessary for their development objectives. "Developing countries and countries with economies in transition risk suffering very serious setbacks to their development objectives, in particular the achievement of the internationally agreed development goals, including the Millennium Development Goals. It is critical to adopt further decisive and prompt actions to contain the current crisis and restore sustained economic growth". Consideration of a provision of special drawing rights as a means to create timely resources for developing countries, referred to in the Monterrey Consensus and the Doha Declaration, has also been proposed.

[2] United Nations publication, Sales No. E.09.II.C.2.

15. The World Bank has announced that it is prepared to make new commitments of up to $100 billion over the next three years. In 2009, it is ready to almost triple lending by the International Bank for Reconstruction and Development to more than $35 billion compared with 2008. In December 2008, the World Bank set up a new, financial crisis facility to fast track funds to developing countries. An initial $2 billion will be available to the hardest-hit poor countries to help them cope with falling revenues, investment and trade in the wake of the global crisis. Money will be used for safety nets, infrastructure, education and health. The new facility will expedite approval processes for money from a $42 billion fund under the fifteenth replenishment of the International Development Association (IDA) for 78 of the world's poorest countries. The Bank is also working on disbursing IDA resources ahead of the previously agreed schedule to stave off the impact of the crisis on the most vulnerable countries. The International Monetary Fund (IMF) has invoked its emergency procedures to provide emergency support to nine countries affected by the crisis and has roughly doubled its concessional finance to low-income countries.

16. It is also most important to address the significant asymmetries in the relative policy capacity of countries — developed versus developing and surplus versus deficit — to undertake crisis responses and their scope for counter-cyclical fiscal stimuli. Developed countries have an enormous advantage in resources and financial depth compared with developing countries in providing guarantees, loans and subsidies to their financial and non-financial firms. Even financial support to domestic automobile companies, for example, can potentially have an impact on the competitiveness of car producers in other countries, including their ability to purchase control of operations of failing firms; many flagship firms in Asia in the late 1990s were sold to foreigners at lower prices. After the onset of the crisis, many financial companies based in emerging economies and countries with economies in transition have been unable to open trade credits for their clients even if they are more financially sound than their implicitly State-guaranteed counterparts in metropolitan markets. The proliferation of national measures that could have the effect of distorting trade has generated a discussion among members of the World Trade Organization. A monitoring mechanism has been set up at the Organization to allow members to review and discuss the compatibility of national recovery measures with international trade disciplines. This highlights the indispensability of coherence in the global system of trade, aid, debt and finance, even in the recovery phase.

17. As will be referred to in the following section, an important cause of the global crisis can be traced to weaknesses in the system of global governance to identify vulnerabilities in a timely manner and mobilize international economic cooperation in reforming institutions, strengthening regulatory frameworks and engaging in macroeconomic coordination. These weaknesses need to be rapidly overcome in the context of coordinating recovery policies. Some quarters have suggested that it might be necessary for the international community to consider, for an interim period, a coordinating mechanism to help provide coherence in the recovery effort. In the medium term, it might indeed be necessary to move towards a comprehensive reform of the global system, such as that undertaken at the United Nations Monetary and Financial Conference in Bretton Woods in 1944.

B. Learning from the crisis and reforming the international financial architecture

18. The onset of the world financial and economic crisis has exposed, inter alia, serious defects in three critical aspects needed for a development-oriented, trade supporting and investment facilitating global economy: liquidity provisioning, trade and financial regulation and macroeconomic policy cooperation.

1. International liquidity provisioning

19. Amidst the current financial market turmoil, the need for international provision of official liquidity has once again become a key challenge for Governments around the world. As at the end of 2008, the Federal Reserve in the United States of America had extended more than $600 billion in swap lines to 14 countries, including $30 billion each to Brazil, Mexico, the Republic of Korea, and Singapore.

20. As indicated above, IMF is providing large-scale financial support to middle-income countries hard hit by balance of payments difficulties, with total access of about $49 billion, and has doubled concessional support for low-income countries to about $2 billion. Care has been taken to ensure that these programmes contain fewer and more targeted conditions than in the past. As at the end of January 2009, IMF had roughly $140 billion worth of funds available for new financial commitments and it could raise an additional $50 billion, if necessary, by tapping existing agreements such as the General Arrangements to Borrow and the New Arrangements to Borrow. More recently, IMF has signed a $100 billion borrowing agreement with Japan to temporarily supplement its financial resources. IMF is also exploring other near-term options to double its pre-crisis lending resources.

21. As a result of benign global conditions, demand for new IMF lending strongly declined after 2003 and many borrowers made early repayments. A view that IMF had become irrelevant as a lender was bolstered by the notion that many developing countries had ample access to international financial markets or had a sufficient cushion against external shocks in the form of large foreign exchange reserves. Consequently, along with addressing the immediate needs of members, IMF has launched a review of its lending role with a view to reaching decisions before the 2009 annual meetings. The priorities of the review include finalizing a new crisis-prevention instrument, re-examining lending facilities for low-income countries and reviewing access limits and financing terms for using IMF resources. The objective of the review is to significantly simplify IMF programmes and include more automatic and quicker disbursements proportionate to the scale of the external shocks, without overly complex policy conditions attached to the disbursements.

22. Large individual country reserves are proving insufficient to absorb the shocks of the present crisis. Reserve levels are falling rapidly, while the cost of financing for emerging market economies is rising and capital flows have reversed, as has been the pattern in recessionary episodes in the context of a global financial system given to booms and sudden stops. For these countries, the pain of economic adjustment could be reduced with access to financing from IMF along with regional reserve-pooling arrangements and swap agreements with developed country central banks. The question is whether IMF has sufficient resources and flexibility to assist its emerging market and developing country members to cope with liquidity problems in an environment of large and volatile capital flows.

23. In October 2008, the IMF Executive Board approved the Short-term Liquidity Facility. To be eligible, countries should have a good track record of sound policies borne out by the most recent regular country assessment (on the basis of the most recent consultations under article IV of the IMF Articles of Agreement). Eligible countries can immediately borrow as much as 500 per cent of their quota for three months, with two possible rollovers during a 12-month period.

24. The Executive Board notionally set aside an initial $100 billion for this facility. Authorities from Europe and the United States have mentioned sums of upwards of $500 billion for this kind of facility. The possibility of allowing IMF to swap special drawing rights for the national currencies of the United States and other countries that are widely used in international transactions to finance the Short-term Liquidity Facility has been widely discussed, although it is noted that this would require an amendment to the IMF Articles of Agreement. These funds could be used not only to help member Governments to replenish reserves and meet their own foreign currency obligations, but also to assist member countries in supporting the international financial operations of their domestic financial institutions. The lack of liquidity is also affecting trade flows because of shrinking levels of trade finance; action to increase availability and affordability of trade finance is key. Many analysts have suggested that a timely emission of special drawing rights would appear to be quantitatively appropriate to arrest the negative impact of rapidly falling international trade volumes. Some countries are making proposals for new trade financing facilities and the International Finance Corporation, in consultation with IMF and the World Trade Organization, is working to develop a liquidity pool that should help to ease the present situation.

25. In the current circumstances, the international community must also do all it can to provide aid for trade to developing countries. This is essential to help them to overcome their structural constraints and enhance their trade competitiveness to recover from the crisis. The second global aid for trade review, to be hosted by the World Trade Organization in July 2009, will provide an opportunity for all stakeholders to continue to make the case for the need to invest in aid for trade.

2. International trade and financial regulation

26. The Doha Declaration encapsulated the international challenge on global regulation and the needed policy responses as follows: "New and highly globalized financial instruments continue to change the nature of risks in the world economy, requiring continuing enhancement of market oversight and regulation". In the same paragraph, the elements[3] to meet this need were laid out. There is broad agreement that it will be necessary to review the boundaries of regulation with the aim of reducing gaps and inconsistencies in regulatory regimes and addressing potential systemic vulnerabilities contributed by sectors currently not regulated.

[3] "To strengthen the resilience of the international financial system, we will implement reforms that will strengthen the regulatory and supervisory frameworks of financial markets as needed. We will strive to improve key accounting standards to remedy weaknesses and deficiencies, including those exposed by the current financial crisis. National regulators should enhance financial information and transparency at the domestic level. We will further enhance cooperation among national regulators from all countries to strengthen international financial standards. These efforts should address timely and adequate risk disclosure standards in order to improve the foundation of decisions of investors. There is also a need for enhanced transparency by financial institutions. Enhanced disclosure practices and transparency should assist efforts to reduce illicit capital flows." (Doha Declaration, para. 72)

27. Strengthened and routinized international cooperation in regulatory reform and practice is critical to reversing the process of competitive relaxation of regulatory regimes by national jurisdictions seeking to attract a financial firm that has undermined global economic stability to the detriment of all countries. Reconsidering the boundaries of regulations and closing gaps will require subjecting financial market activities around the globe to disclosure requirements. On 22 February 2009, European leaders meeting in Berlin recognized, inter alia, the role that strengthened international tax cooperation could play in effective global financial regulation.

28. The Doha Declaration called for strengthening international cooperation in tax matters and for regulatory reforms to ensure that financial systems have more capital, stronger liquidity frameworks and appropriate levels of leverage and that more information is provided to authorities. Effective regulation requires coherent, internationally agreed standards and must address the reform and increased responsiveness of existing institutions, such as the Bank for International Settlements, the Financial Stability Forum, the International Organization of Securities Commissions and the International Accounting Standards Board, to achieve the objective of reducing financial volatility and excessive risk taking. The Doha Declaration also called for wider[4] international cooperation in this effort.

29. The global financial crisis has exposed harmful information gaps, including the quality of the timely data that is available to the authorities and the market; the appropriate role and use of credit ratings and conflicts of interest in the rating process; and faulty analytical work in assessing risks and vulnerabilities in the system. In the Doha Declaration, States agreed to "... exercise strong oversight over credit rating agencies, consistent with the agreed and strengthened international code of conduct, and take additional action to strengthen financial market transparency and enhance the convergence of global accounting standards".

30. Overcoming the pro-cyclicality of regulatory approaches and the reliance on "self-regulation" by market participants is a key element for strengthening the global financial system. Regulatory approaches, which have been traditionally confined to improved disclosure, prudential controls and risk management, are now generally seen as inadequate in mitigating the inherent pro-cyclicality of the financial system, which tends to foster asset price bubbles. Almost all episodes of systemic financial distress have had at their root very rapid credit growth, excessive risk taking and overextension of balance sheets in good times, all masked by the strength of the real economy and extraordinary increases in asset prices. In the current situation, this mechanism has been globalized. In the Doha Declaration there was agreement that "the scope for appropriate counter-cyclical policies to preserve economic and financial stability should be expanded".

31. Acting as the "first line of defence against market instability",[5] national authorities ought to consider expanding the range of their instruments for purposes of financial regulation. As the Chairman of the United States Federal Reserve recently emphasized, the crisis indicates that the traditional microprudential

[4] "We recognize the need to address the often expressed concern at the extent of representation of developing countries in the major standard-setting bodies. We therefore welcome the proposed expansion of the membership in the Financial Stability Forum and encourage the major standard-setting bodies to review their membership promptly while enhancing their effectiveness." (Doha Declaration, para. 76)

[5] Declaration by the Leaders of the Group of Twenty, Summit on Financial Markets and the World Economy, Washington, D.C., 15 November 2008, para. 8.

approaches are not adequate to contain the build-up of systemic risk, suggesting that macroprudential approaches are necessary. In expanding regulatory instruments to address macroeconomic risk, counter-cyclical instruments, such as the building up of sufficiently high buffers (capital requirements and lock-in periods, for example) in good times, when the market price of risk falls and imbalances might develop, in order both to restrain expansion during upswings and to provide a greater cushion against losses when disruptions occur, could be deployed. By developing policy instruments to lower or raise capital requirements depending on the specific situation and the type of capital flow, authorities could be better equipped to utilize market incentives to reduce systemic risks. The crisis suggests that such instruments could also apply to cross-border capital flows, which can be quite volatile. When applied to external capital flows, these instruments could involve controls in the capital account, which should be an option open for consideration by countries based on the particular situation of each case and not proscribed across the board. For domestic authorities to indeed become the first line of defence, it might be necessary to secure adequate national policy space.

32. There is a need to move decisively towards an internationally coordinated macroprudential and regulatory architecture, with non-conflicting standards and procedures. This involves greater clarity of respective responsibilities and objectives, as well as closer and more effective cross-border synchronization and collaboration among supervisors, regulators, central banks and fiscal authorities. It is now necessary to intensify the international discussion on a global system of financial regulation, based on credible international rules. Such a mechanism may require an international body (or bodies, such as the colleges of supervisors for systemically important financial institutions) with an explicit mandate for financial oversight and monitoring, as well as early warning capabilities and the force and authority to ensure that those warnings are acted upon.

33. The Doha Declaration reaffirmed that international trade was a crucial engine for development and sustained economic growth. It also called for urgent re-engagement to strive to reach agreement by the end of 2008 on modalities that would lead to a successful and early conclusion of the Doha Development Agenda. Despite significant efforts, modalities could not be reached by the end of 2008. A successful result would support expansion in the exports of developing countries, reinforce the potential for trade to play its due role as the engine of growth and development, provide increased opportunities for developing countries to use trade to support productive employment and development, and provide an insurance against protectionist tendencies. This is all the more important given the current economic crisis. Even though recent commitments concerning trade and the critical importance of rejecting protectionism in times of financial uncertainty are welcome, countries must urgently re-engage and strive to reach agreement on modalities that lead to a successful and early conclusion of the Doha Development Agenda with an ambitious, balanced and development-oriented outcome.

3. International macroeconomic policy cooperation

34. The present system of global economic governance has been proven to be inadequate and did not prevent, inter alia, global macrofinancial imbalances from ballooning into crisis proportions. In addressing the global imbalances, the world community has continued to rely almost exclusively on national policies and has been unable to properly address, for example, the critical role that exchange rate policies play. The current crisis has led to ad hoc fixes as the present global governance system generally lacks effective mechanisms for coordination related to

national macroeconomic policies, reserve management and financial supervision and regulation.

35. The ability of IMF, the principal institution of global economic governance, to safeguard the stability of the global economy has been significantly undermined by the vastly greater (and more volatile) financial resources of private actors with global reach. International policy coordination has been even more difficult with other international institutions and mechanisms, in areas such as liberalization of trade-related financial services and setting global regulatory standards over financial companies. There remains a strong perception that IMF has been sidelined in the handling of the present crisis. More than ever, the world economy now needs credible, representative and effective mechanisms for macroeconomic coordination with governance structures that are adequately representative of all countries' interests and that can exercise strong policy leadership.

36. The Doha Declaration called for the comprehensive reform of the Bretton Woods institutions.[6] Beyond the rebalancing of voting power in these institutions, some observers point to the need to set up effective supranational mechanisms, as is being attempted, for example, in the European Union, to promote growth- and stability-oriented macroeconomic policies at the national level, including measures to guard against policies that can lead to unsustainable imbalances at the global level. In the long run, the provision of a globally managed liquidity and payments system should be seriously considered.

37. Notwithstanding ongoing efforts, further strengthening of the effectiveness of IMF surveillance is required. The major thrust of the ongoing reform of the IMF surveillance mechanism, which has assumed greater urgency in the light of the present crisis, is to strengthen the analysis of macrofinancial linkages, fully extending its vulnerability exercise for both emerging economies and advanced countries, and enhancing the monitoring of all financial markets. It is again important to recall in this context the call of the international community in the Doha Declaration for reform of the international financial institutions.[7]

38. The events of the past year and a half have exposed serious weaknesses in international crisis response. It is thus necessary to develop ex ante agreed and consistent international principles and practical guidelines for cross-border cooperation and contingency planning for crisis management. Much of the preparatory work to facilitate management of the international financial crisis has

[6] "We underscore that the Bretton Woods institutions must be comprehensively reformed so that they can more adequately reflect changing economic weights in the world economy and be more responsive to current and future challenges. We reaffirm that the enhancement of voice and participation of developing countries in the Bretton Woods institutions, in accordance with their respective mandates, is central to strengthening the legitimacy and effectiveness of these institutions." (Doha Declaration, para. 77)

[7] "We reaffirm that the international financial institutions, including the Bretton Woods institutions, need to be further reformed. The reformed multilateral financial institutions should have the technical capacities, credit facilities and financial resources to deal with the management and swift resolution of financial crises in a manner that elicits and facilitates international cooperation and that is consistent with their respective mandates. The international financial institutions should continue to foster the multilateral cooperation needed to restore and safeguard international monetary and financial stability and should stand ready to quickly make available sufficient resources to help countries in overcoming crises. The International Monetary Fund, in collaboration with an expanded and representative Financial Stability Forum and other bodies, should work to better identify vulnerabilities, anticipate potential stresses and act swiftly to play a key role in crisis response." (Doha Declaration, para. 73)

not yet been carried out. National authorities now better understand the need to have pre-existing plans for dealing with pressures involving cross-border financial institutions, including large and immediate funding requirements. Resolution procedures and bankruptcy arrangements also need to be better coordinated. It is also important to clarify arrangements for coordinating deposit insurance for cross-border institutions.

C. Enhanced global governance and cooperation as a critical ingredient in crisis response and system reform

39. It is now widely acknowledged, including by the leaders of the world's major economies, that the problems are global and systemic. The view that the causes of the ongoing global turmoil are systemic found expression in the Doha Declaration: "The current financial crisis, as well as the continued weaknesses in the international financial system, further underline the need to strengthen the international financial architecture." Weaknesses in global economic governance, the failure of global imbalances to self-correct, haphazard financial deregulation and inadequate or missing institutions, such as the non-existence of an international lender of last resort, and mechanisms for regulatory coordination are particularly critical. Establishing a framework for global economic governance aligned with twenty-first century realities is therefore required to create international safeguards that can prevent the onset of a similar generalized economic calamity. The Doha Declaration highlighted the importance of reforming existing institutions and taking a comprehensive approach to global economic governance in a process that involves all countries.[8]

40. In recognition of the political dimension of economic and financial coordination, there is a burgeoning global discussion on the need to establish credible and effective mechanisms for international policy cooperation, which may require either strengthening existing processes (such as the financing for development follow-up process itself, a stronger International Monetary and Financial Committee of the IMF Board of Governors and/or a deeply revitalized Economic and Social Council) or the creation of new representative world bodies to assume leadership for global financial and economic stability. For example, in February 2008, leaders of some major European countries discussed the idea of a "global economic council", with the legitimacy, credibility and capability to identify, debate, and provide policy guidance on critical and emerging global economic issues. There are also proposals for the International Monetary and Financial Committee to transform itself into a more powerful "IMF Council".

[8] "Welcoming the ongoing international discussions on global economic governance structures, we acknowledge the need to ensure that all countries, including low-income countries, are able to effectively participate in this process. This debate should review the international financial and monetary architecture and global economic governance structures in order to ensure a more effective and coordinated management of global issues. Such a debate should associate the United Nations, the World Bank, IMF and the World Trade Organization, should involve regional financial institutions and other relevant bodies and should take place in the context of the current initiatives aimed at improving the inclusiveness, legitimacy and effectiveness of the global economic governance structures." (Doha Declaration, para. 78)

41. In any event, the Doha Declaration expressed the international community's determination to pursue the process of strengthening global governance.[9] Reform efforts are presently being pursued in various ad hoc groups, including venues outside the United Nations system, the most prominent of these being the two summits bringing together the "Group of 20", the second of which will be held on 2 April 2009 in London. In the Doha Declaration, States also agreed to hold a United Nations conference on the world financial and economic crisis and its impact on development, which is expected to be planned by March 2009. For his part, the President of the General Assembly created a commission of experts to consider reforms of the international monetary and financial system.

42. The challenge to international cooperation and governance clearly transcends purely technical considerations. Efforts to respond to the current crisis and reform the international system call to mind the resolve and visionary spirit of multilateralism in 1944, in the midst of a devastating war that would still kill millions of people, at the United Nations International Monetary and Financial Conference which created the Bretton Woods system. The current conjuncture would seem to demand the same kind of focus, recognizing that peace, stability and prosperity are indivisible and that delivering these goals requires decisive actions and fundamental reforms.

43. Reforming the international economic system will obviously not be completed in one step. The current system is really the outcome of a series of ad hoc adjustments that have been continually overtaken by more rapid changes in the structure of the global economy. It seems therefore very timely that studies and discussions towards a more comprehensive reform of the global system commence as soon as possible and that a set of working relationships to start the process be put in place.

Points for reflection

Point 1

44. **How can the international community coordinate and provide coherence to the crisis response? Is there a need for an interim oversight and coordinating mechanism and if so where should it be located? To what extent should policy coordination be confided to global or supranational institutions or be based on the agreement of national authorities to collaborate more closely?**

Point 2

45. **What should be the role of the United Nations in general, and of the agencies, funds and programmes of the United Nations system, in response to the crisis? How can coordination with the Bretton Woods institutions and other financial institutions be best achieved and supported? What role can or should the Economic and Social Council play in this regard?**

[9] "The reform of the international financial architecture should focus on providing greater transparency and strengthening the voice and participation of developing countries and countries with economies in transition in international decision-making and norm-setting. Thus, we resolve to undertake appropriate and timely steps to improve the functioning of the international economic and financial system. It is essential to maintain the involvement of the United Nations in these undertakings." (Doha Declaration, para. 68)

Point 3

46. **How can the global community make progress in new and potentially difficult areas of international cooperation, such as tax matters and financial regulation?**

Point 4

47. **Drawing on the outcomes of ongoing processes, how can mechanisms of cooperation in regulatory activities be regularized and operationalized?**

Point 5

48. **In the light of the calls made in Monterrey in 2002 and reiterated in Doha in 2008, what kind of mechanisms can be put in place to build consensus and promote steady progress in the goal of eliciting fundamental reform of the global system of economic governance (such as starting work towards a "second Bretton Woods" conference)?**

II. Strengthening the intergovernmental inclusive process to carry out the financing for development follow-up

49. In paragraph 89 of the Doha Declaration on Financing for Development, "the need for a strengthened and more effective intergovernmental inclusive process to carry out the financing for development follow-up, which would review progress in the implementation of commitments, identify obstacles, challenges and emerging issues and propose concrete recommendations and actions, taking into account various proposals that have been put forward" is acknowledged and the Economic and Social Council is requested "to consider this matter during its spring meeting and at its substantive session of 2009, in consultation with all relevant stakeholders, with a view to making appropriate and timely recommendations for final action by the General Assembly as early as possible in its sixty-fourth session".

50. There seems to be growing recognition that the existing mechanisms are not as robust and effective as would be desired for such an important process as financing for development, which recently received a strong political boost from Member States with the realization of the Doha Conference and the adoption of the Doha Declaration on Financing for Development. Almost all participants expressed their satisfaction with the "financing for development experience", in particular because of its very unique multi-stakeholder nature, and wished that it should continue in a strengthened way. This is reflected in paragraphs 87 and 88 of the Declaration. In addition, many indicated that, because of the unfolding global financial and economic crisis, financing for development acquires additional importance and strengthening it is therefore perhaps more necessary than ever.

51. The existing follow-up modalities are well known and simple: the one-day spring high-level meeting of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development (UNCTAD), which takes place every year; and the two-day high-level dialogue of the General Assembly, held every two years. That is, in any two-year period, a total of only four days are allocated to financing for development follow-up. Neither of the two meetings produces agreed outcomes.

This contrasts sharply with, for example, the mechanisms existing to help support the follow-up of other major United Nations conferences and subjects in the economic and social areas — such as sustainable development, social development, population and women — that meet on a lengthier and more frequent basis and adopt recommendations for consideration by the Council and the General Assembly.

A. Criteria for a strengthened process

52. During the review process held in the first half of 2008 leading up to the Doha Conference, and in the Conference itself, participants who referred to this subject seemed to converge on the main criteria for a more effective financing for development follow-up mechanism described below.

Maintaining the multi-stakeholder nature of financing for development

53. There is a general agreement that the success of financing for development has been related in great part to the close involvement of the "major institutional stakeholders" (the World Bank, IMF and the World Trade Organization), in working with the United Nations (which, internally, has also coordinated closely among the Department of Economic and Social Affairs, UNCTAD and the United Nations Development Programme). Financing for development has also had the trademark of being especially open and welcoming to other official and non-official players, such as intergovernmental organizations and United Nations agencies, regional bodies and, in particular, the civil society and business sector communities.

Making the process more productive and visible

54. The amount of time allotted to the subject of financing for development should be more in line with its importance and relevance to present world economic problems and issues. This has a bearing on the frequency and duration of the meetings. It also points to the need that deliberations should normally result in concrete policy recommendations that can be translated into actions by stakeholders, be they Governments, international bodies, civil society groups or private entities or individuals.

Ensuring effectiveness, dynamism and credibility

55. There seems to be a general view that what is needed is not a large, new intergovernmental entity that may be slow to act and difficult to organize and to manage. Rather, a dynamic, efficient mechanism, composed of limited, but duly representative membership — including from all stakeholders — seems to be preferred. Concerns of cost-effectiveness, including minimizing any possible financial implications, are also to be kept in mind, as well as maintaining the rule of consensus.

B. Existing ideas and proposals

1. Proposals of the Secretary-General

56. Though there is a growing agreement on the need for a strengthened process, there have so far been few concrete proposals put on the table on how to actually

achieve this objective. The Secretary-General, in previous reports on financing for development to the United Nations Member States, has himself made various suggestions. For example, in his first report to the General Assembly after Monterrey (A/58/216), the Secretary-General suggested that "Building on the experience of the Bureau of the Preparatory Committee for the International Conference on Financing for Development, the Economic and Social Council would benefit from selecting an appropriately sized and duly representative group of its member States, who could undertake substantive face-to-face consultations, when necessary, with their colleagues in the other institutions ... The Economic and Social Council may wish to consider an appropriate mechanism, such as a geographically balanced committee or expanded bureau or similar arrangement, to assist it in effectively preparing for the annual spring meeting ... and in dealing with related aspects of the follow-up to the International Conference on Financing for Development falling within the Council's purview".

57. In his well-known report entitled "In larger freedom: towards development, security and human rights for all" (A/59/2005), which was prepared for the 2005 World Summit, the Secretary-General again formulated a similar proposal, in the following terms: "The [Economic and Social] Council needs an effective, efficient and representative intergovernmental mechanism for engaging its counterparts in the institutions dealing with finance and trade. This could either be achieved by expanding its Bureau or by establishing an Executive Committee with a regionally balanced composition". The idea was also included that same year in the annual report of the Secretary-General on financing for development (A/60/289): "In view of the importance that Member States attach to this issue and the experience gained in the follow-up to the Conference in previous years, which seem to point to the need for a more visible, dynamic and effective intergovernmental support mechanism, it is recommended that such a committee be agreed upon and set up in 2005 in the context of the General Assembly's deliberations on the respective agenda items at its sixtieth session".

58. Since the matter was not taken up in 2005 or 2006, in his report to the General Assembly presented in relation with the 2007 High-Level Dialogue on Financing for Development (A/62/217), the Secretary-General once again recommended that "the General Assembly might consider it timely to decide on a fundamental strengthening of the institutional arrangements for intergovernmental follow-up of the financing for development process". He reiterated that "It has been suggested on previous occasions that Member States could, for example, consider setting up a committee on financing for development or a similar mechanism to serve as a more dynamic and permanent forum to address issues related to the follow-up of both the Monterrey Conference and the Doha Conference. Such a committee could also serve as a continuing interface, at the intergovernmental level, with relevant bodies of the Bretton Woods institutions, the Word Trade Organization and other stakeholders".

59. Finally, in his 2008 report to the General Assembly (A/63/179), the Secretary-General reiterated: "There have also been renewed calls to strengthen the intergovernmental follow-up mechanisms to the Monterrey and Doha Conferences and to maintain the partnership of the United Nations with the other major institutional stakeholders in this task. In this regard, it was also noted that any mechanism must be effective, inclusive and transparent ... [and] ensure a continuing multi-stakeholder and multisector approach and build on the experiences and lessons in recent years, including strengthening of the interface with the Bretton

Woods institutions, with a view to promoting a results-oriented framework for consultations and substantive dialogue".

2. Proposals of the Rio Group of countries

60. The Rio Group of countries has focused on the subject and made a concrete proposal in the context of the review sessions undertaken in preparation for the Doha Conference. The proposal document, dated 3 June 2008, calls for the setting up of a "Forum on Financing for Development", which would meet twice a year before the semi-annual meetings of the Bretton Woods institutions, and would be followed by a results-oriented yearly discussion in the General Assembly. The Group stressed that the main criteria guiding the design of the new mechanism were that it should be "integrated, periodic, multisectoral, dynamic and interactive, democratic, balanced and making rational use of resources". The "Forum" itself would be composed of United Nations Member States (18, 36 or 54); Executive Directors from the Boards of the World Bank and IMF (5 from each); the President of the General Council of the World Trade Organization; the President of the Trade and Development Board; representatives of other relevant intergovernmental organizations (2); representatives of the regional commissions (5); and one representative from civil society organizations and one from business sector entities.

61. According to the Rio Group proposal, the Forum on Financing for Development would be a subsidiary body of the General Assembly and would have as its main objective to review and monitor the commitments on financing for development reached at the Monterrey and Doha Conferences, identifying obstacles, challenges and emerging issues and focusing its deliberations on recommendations for action that would serve as the basis for a resolution to be subsequently adopted by the General Assembly.

3. Proposals of civil society organizations

62. Civil society organizations have also been interested in, and made proposals on, the subject. A document dated 30 August 2008, circulated to delegations in New York as a contribution to the Doha Conference, the "Doha non-governmental organizations group", on behalf of 52 civil society entities from around the world recommended that the current follow-up process be replaced with a new institutional mechanism that had, at a minimum, five features: (a) it should meet periodically and frequently; (b) it should produce a negotiated outcome; (c) it should be at the highest level, and in particular should include high-level officials covering key economic portfolios; (d) civil society should be accorded a space as had been the case from the beginning of the financing for development process; and (e) the institutional mechanism should provide the necessary legitimacy, political guidance and leadership on concrete follow-up matters. Then, in Doha itself, the Civil Society Forum included in its final statement: "The financing for development process should provide for a new institutional mechanism within the legitimate framework of the United Nations which ... brings together all ... stakeholders ...".

C. Combining the various proposals, criteria and objectives

63. In the light of the various proposals, criteria and concerns referred to above, and having foremost in mind the goals and objectives set out in paragraphs 87 to

89 of the Doha Declaration, Member States might at this stage again wish to consider the possibility of devising a more effective and robust mechanism for financing for development follow-up. Building on the suggestions of both the Rio Group and the Secretary-General, as well as on ideas from other stakeholders, it can be suggested that this mechanism have at its centre a representative, multi-stakeholder "Financing for Development Committee", subsidiary either to the Economic and Social Council or to the General Assembly. In order to keep it as dynamic as possible, the Committee's composition could be relatively small; one possibility would be to have 18 members drawn from United Nations delegations, 6 representatives from the World Bank Executive Board and 6 from the IMF Executive Board, one each from the World Trade Organization and UNCTAD, one from other relevant United Nations agencies, including the regional commissions, one from other intergovernmental organizations, and one each from the civil society and business sector communities. This would give the committee a total of 36 members.

64. In order to keep the selection of participants as simple as possible, it would be further suggested that the 18 representatives from United Nations delegations — equal to one third of the number of members of the Economic and Social Council — be drawn from the Council's membership in an **automatic** way, according to a formula whereby each Member State elected to the Council would be asked to serve in the Financing for Development Committee for **one year**, during the second year of its three-year Council term. This would also ensure transparent and democratic rotation in the representation, without the need for any separate election process. In a similar vein, the six representatives of the World Bank and IMF Executive Boards could assume the function under a rotating arrangement to be agreed by them. It should be remembered, of course, that both Bank and Fund Executive Directors normally represent **constituencies**, rather than individual countries, and that appropriate ways and means would have to be found to take this into account in any selection or rotation formulas.

65. A Financing for Development Committee as outlined above might serve the objectives of effectiveness and inclusion set out in the Doha Declaration. It can be based on the generally agreed criteria outlined earlier, and take into account existing proposals on the matter. It could meet in New York for one week twice a year — at some time before the Bretton Woods meetings, as suggested by the Rio Group — which would have minimal cost implications. The Committee would of course replace both the spring high-level meetings of the Economic and Social Council with the international financial and trade institutions and the biennial high-level dialogues of the General Assembly. Its recommendations would be submitted to the parent organ.

Points for reflection

Point 6

66. **Would United Nations delegations and representatives of the international financial and trade institutions consider that a "Financing for Development Committee" such as outlined above elicit more engagement and participation on the part of all stakeholders concerned?**

Point 7

67. If a new mechanism is not set up, what can be done to make the existing spring high-level meeting more attractive and interesting to participants? Should it be held before, rather than after, the Bretton Woods institutions meetings? Should it last two days rather than one? What could be its most useful outcome?

Point 8

68. If things are maintained as they presently are, should the biennial high-level dialogues of the General Assembly keep the existing format? Should a dialogue take place in 2009? If so, when, and how, should the dialogue relate to the General Assembly conference on the global financial and economic crisis?

Point 9

69. How could any strengthened financing for development follow-up mechanism eventually relate to the establishment of new global bodies to address international financial architecture and governance issues, as referred to in section I.C?